

## Message Text

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ACTION EUR-25

INFO OCT-01 ISO-00 NSC-10 AID-20 CEA-02 CIAE-00 COME-00

EB-11 EA-11 FRB-02 INR-10 IO-14 NEA-10 NSAE-00 RSC-01

OPIC-12 SPC-03 TRSE-00 CIEP-02 LAB-06 SIL-01 OMB-01

SS-20 SCI-06 SCEM-02 INT-08 L-03 DRC-01 CEQ-02 EPA-04

H-03 /191 W

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R 170844Z NOV 73

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TO SECSTATE WASHDC 1145

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DEPT PASS CEA, FRB, TREAS, CLC, COMMERCE

E.O. 11652: N/A

TAGS: ECON, EFIN, OECD

SUBJECT: EPC MEETING, NOV. 15-16

REF: CPE(73)5 TO 8

1. SUMMARY: EPC CONCLUDED THAT PURSUIT OF PRICE STABILITY IS OVER-RIDING COMMON OBJECTIVE, BUT EACH COUNTRY HAS TO USE POLICY MIX APPROPRIATE ITS OWN SITUATION AND EXPERIENCE. COMMITTEE AGREED IMPACT OIL PRICE HIKES AND CUTBACKS ON INDIVIDUAL MEMBERS' ECONOMIES WOULD BE ADVERSE AND VARY WITH COUNTRY. ALTHOUGH SOME COUNTRIES EXPRESSED CONFIDENCE IN ABILITY MANAGE SHORT-TERM AND LIMITED CUTBACKS, MANY WERE TOO UNCERTAIN TO EXPRESS OPINION. OIL PRICE RISE LIKELY WIPE OUT EXPECTED 1974 OECD CURRENT ACCOUNT SURPLUS, BUT THIS WOULD BE OFFSET BY ON-GOING CAPITAL REFLows. MEMBERS AGREED MEET MID-FEBRUARY TO ASSESS ECONOMIC SITUATION AND PROGRESS AGAINST INFLATION, PARTICULARLY IN LIGHT DEVELOPMENTS IN OIL PRICES AND SUPPLIES. END SUMMARY.

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2. PURSUIT OF PRICE STABILITY: ALL AGREED THAT PURSUIT OF PRICE STABILITY IS OVER RIDING COMMON OBJECTIVE. MOST MEMBERS NOTED EXCESS DEMAND WAS STILL PRESENT AND DEMAND MANGEMENT POLICIES NEEDED BE PURSUED WITH CONTINUED OR EVEN INCREASED VIGOR. GENERAL FEELING WAS THAT EVEN WITH CONTINUED EMPHASIS ON RESTRAINT, DECLINE OF PRICE INCREASES IS NOT ASSURED IN NEAR FUTURE. RECENT OIL SITUATION REINFORCED VIEW THAT EXISTING POLICIES IN MANY CASES NEED BE STRENGTHENED.

3. U.S. (STEIN) SAID WORLD HAS STILL DANGEROUSLY INFLATIONARY PLACE, WITH STRONG AND RAPIDLY RISING DEMAND. THERE WAS NEED FOR FURTHER COMMITMENT TO ANTI-INFLATION POLICIES. HE EXPRESSED DOUBT THAT OTHERS WERE MAKING SERIOUS ENOUGH EFFORTS.

4. APPROPRIATE POLICY MEASURES: ALTHOUGHT COMMITTEE AGREED ON IMPORTANCE OF FIGHTING INFLATION AND ON NEED FOR HARMONIZED APPROACH, MOST FELT THAT SIMILAR KINDS OF ACTION WERE NEITHER APPROPRIATE NOR POSSIBLE. CHAIRMAN(ALLEN) REFERRED TO SITUATION AS ORCHESTRA PLAYING IN HARMONY BUT NOT ALL PLAYING SAME NOTE. SWISS AND AUSTRIANS UNDERSCORED DISAPPOINTMENT THAT EPC HAS NOT SEIZED MANDATE FROM MINISTERIAL COUNCIL TO EXPLORE POSSIBLE AREAS OF COMMON ACTION. SWISS REP (HAY) SUBMITTED NOTE SUGGESTING LINES FOR POLICY COORDINATION, AND PROPOSED ESTABLISHMENT AD HOC GROUP TO LOOK INTO THIS SUBJECT. MEMBERS CONTINUED TO DISAGREE OVER USEFULNESS OF PRICE AND WAGE POLICIES. ALL RECOGNIZED THAT THEY CANNOT WORK IN CONDITION OF EXCESS DEMAND, BUT MANY THOUGHT PRICE WAGE POLICIES WERE USEFUL FOR SLOWING DOWN PASS THRU OF COMMODITY PRICE HIDES AND FOR MODERATING INFLATIONARY PSYCHOLOGY. MOST COUNTRIES RECOGNIZED DANGER OF TEMPORARY RISES COMMODITY PRICES BEING CARRIED OVER INTO WAGE AGREEMENTS WHICH COULD NOT BE EASILY REVERSED IF AND WHEN PRICES FELL.

5. SEVERAL COUNTRIES STRESSED NEED TO AVOID COLLECTIVE MISTAKES IN DEMAND MANAGEMENT MADE IN RECENT UPSWING. HOWEVER, MOST RECOGNIZED THAT DANGER OF INFLATION FAR LIMITED OFFICIAL USE

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EXCEEDED RISK OF CUMULATIVE DOWNTURN. GERMANS NOTED DEGREE OF RESTRAINT HAD TO BE ASSESSED IN TERMS OF RISK OF INFLATION VS RISK OF UNEMPLOYMENT.

6. OIL PRICE HIKES AND CUTBACKS: COMMITTEE SEEMED NOT TO BE AS ALARMED ABOUT OIL SITUATION AS PRESS. GENERAL FEELING WAS THAT IMPACT, ALTHOUGH ADVERSE, WOULD VARY FROM COUNTRY TO COUNTRY, BUT EFFECT ON

PRICES, OUTPUT, AND BALANCE OF PAYMENTS WOULD BE MANAGEABLE. UK(BERRILL) SAID OIL PROBLEM WAS TWO-FOLD AA ONE OF PRICE AND ONE OF SUPPLY. THERE WERE LARGE UNCERTAINTIES REGARDING FUTURE PRICES, DURATION OF CUTBACKS, SHARE OF SUPPLY TO EACH COUNTRY, AND IMPORTANCE OIL TO EACH ECONOMY. FOR UK, HE STRESSED THAT CUTBACK OF 10 PER CENT IN OIL SUPPLIES COULD BE ACCOMMODATED. HOWEVER, CUT OF 15 TO 20 PER CENT WOULD HAVE REAL EFFECT ON OUTPUT AND COULD RESULT IN STAGFLATION.

7. STEIN SAID THAT IMPACT ON GNP AND EMPLOYMENT WOULD BE MINIMAL BECAUSE US COULD INSULATE INDUSTRIAL SECTOR BY RESTRAINING NON-ESSENTIAL USES OF ENERGY BY HOUSEHOLDS, PRIVATE AUTOMOBILES, AND SOME MARGINAL COMMERCIAL ACTIVITIES. JAPANESE REP. IN CONTRAST SAID THAT 10 PER CENT REDUCTION IN OIL SUPPLY WOULD REDUCE REAL GNP BY EQUIVALENT PERCENTAGE. IMPACT WOULD BE FELT EVEN IN REMAINDER 1973. A 30 PER CENT RISE IN OIL PRICES WOULD RESULT IN 1 PER CENT RISE IN CONSUMER PRICE

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INDEX. JAPAN HAD LIMITED SCOPE FOR CUTBACK IN NON-ESSENTIAL USES OF OIL, BECAUSE 70 PER CENT OF OIL SUPPLY

WENT TO INDUSTRY. CANADIAN REP EXPRESSED CONCERN ABOUT OVER-REACTION TO OIL CRISIS, AND NOTED POSSIBILITY THAT BUSINESS INVESTMENT DECISIONS MIGHT BE PUT OFF WITH UNDESIRABLE CONSEQUENCES FOR OUTPUT AND DEMAND. DANES MADE INTERESTING POINT THAT OIL CAN PROVIDE NECESSARY SHOCK TO HELP COUNTRIES GAIN ACCEPTANCE OF SEVERE INCOMES MEASURES. SEVERAL COUNTRIES SUGGESTED OECD DO THOROUGH ANALYSIS OF OIL IMPACT, UNDER SEVERAL POSSIBLE ASSUMPTIONS. THIS WOULD BE USEFUL AID TO DECISION MAKING BY MEMBER GOVERNMENTS.

8. OIL AND OECD BALANCE OF PAYMENTS: SECRETARIAT (MARRIS) SAID THAT BECAUSE OF OIL SITUATION OECD CURRENT ACCOUNT SURPLUS IN 1974 WOULD BE SIGNIFICANTLY REDUCED OR EVEN DISAPPEAR. THIS WOULD NOT BE AS SERIOUS AS MIGHT APPEAR BECAUSE EXPECTED REFLOWS ON CAPITAL ACCOUNT WOULD MAKE UP FOR CURRENT ACCOUNT LOSSES. MAIN PROBLEM WOULD BE UNEVEN DISTRIBUTION OF REFLOWS TO OECD MEMBERS. HOWEVER, LARGE PART OF REFLOWS WOULD GO TO EURO-CURRENCY MARKET, LIMITED OFFICIAL USE

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AND DEFICIT COUNTRIES COULD MAKE USE OF THIS SOURCE. MARRIS NOTED THAT ARAB MONOPOLY ON OIL SUPPLY WAS OFFSET BY OECD MONOPOLY ON ASSETS ARABS WANTED TO BUY WITH THEIR INCREASED OIL EARNINGS. HE THOUGHT THAT ABOUT 1/3RD OF INCREASED OIL COSTS WOULD SOON RETURN AS PAYMENT FOR GOODS AND SERVICES; ANOTHER 1/3RD AS DEFERRED CLAIMS, AND REMAINDER AS CAPITAL FLOWS.

9. MARRIS SAID THAT IN SOME CASES EXCHANGE RATE DEPRECIATION MIGHT AGGRAVATE IMPACT OF OIL PRICE HIKES ON MEMBER COUNTRIES IMPORT BILLS. IT WOULD BE TO ADVANTAGE OF JAPAN TO SEE THAT RATE DID NOT DEPRECIATE IN VIEW ITS HEAVY DEPENDENCE ON OIL IMPORTS.

10. HE WARNED MEMBERS AGAINST SCRAMBLING TO PRESERVE THEIR CURRENT ACCOUNT POSITIONS. IT WOULD BE SELF DEFEATING AND UNNECESSARY SINCE MANY WOULD BE GETTING CAPITAL REFLOWS OR HAVE ACCESS TO EUR CURRENCY MARKETS. HE ALSO WARNED THAT THIS SCRAMBLE COULD LEAD TO TRADE PROTECTIONISM. WITH REGARD NON-OIL LDC'S, HE DID NOT THINK THAT IMPACT OF RISING OIL PRICES WOULD BE AS SEVERE AS EARLIER THOUGHT. EVEN AN INCREASE OF \$2-1/2 BILLION IN THEIR IMPORT BILL WOULD BE MANAGEABLE IN SHORT RUN BECAUSE OF RECEIPTS FROM COMMODITY SALES AND RECENT HEAVY BORROWINGS IN EURO CURRENCY MARKETS.

11. NORWAY SAID 5 PER CENT KRONER REVALUATION WAS DESIGNED TO KEEP PRICES FROM ACCELERATING AND ENDANGERING WAGE NEGOTIATIONS SCHEDULED NEXT SPRING.

12. POLLUTION STUDY: REGARDING PUBLICATION POLLUTION PAPER (CPE(73)7), EPC UNABLE REACH AGREEMENT. STEIN SUGGESTED PUBLICATION UNTIMELY IN VIEW CONFRONTATION BETWEEN ENERGY PROBLEM AND ENVIRONMENTAL PROBLEM, AND THIS ISSUE NOT COVERED IN PAPER. MARRIS BELIEVED NO FURTHER MAJOR MODIFICATIONS SHOULD BE MADE AND PAPER SHOULD BE PUBLISHED AS PART OF SERIES ON RESOURCE ALLOCATION PROBLEMS. SEVERAL COUNTRIES SUPPORTED PUBLICATION, AND ISSUE WILL BE REFERRED TO COUNCIL FOR DECISION.

13. NEXT MEETING: EPC AGREED TENTATIVELY TO MEET LIMITED OFFICIAL USE

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FEBRUARY 13-14 BACK-TO-BACK WITH WP-3. PURPOSE OF MEETING WOULD BE TO ASSESS ECONOMIC SITUATION AND PROGRESS AGAINST INFLATION PARTICULARLY IN LIGHT OF DEVELOPMENTS IN OIL PRICES AND SUPPLIES. MEMBERS WOULD BE SOUNDED OUT TO SEE IF WORKING PARTY 4 SHOULD MEET PRIOR THAT DATE IN ORDER MAKE USEFUL INPUT TO EPC MEETING. STEIN SUGGESTED THAT SECRETARIAT MAKE QUARTERLY REPORTS ON STATE OF MEMBERS' ECONOMIES AND POLICY ACTIONS. SEVERAL MEMBERS SUPPORTED, AND SECRETARIAT AGREED GIVE SERIOUS CONSIDERATION TO PROPOSAL. SECRETARIAT CIRCULATED DRAFT NON-BINDING CONSENSUS OF MEETING FOR COMMENT. REVISED DOCUMENT WILL BE SENT TO COUNCIL FOR ITS GUIDANCE ON INFLATION POLICIES.  
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## Message Attributes

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**Capture Date:** 01 JAN 1994  
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**Copy:** SINGLE  
**Draft Date:** 17 NOV 1973  
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